

The Real Estate ANALYST

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Volume XVI

A concise easily digested periodic analysis based upon scientific research in real estate fundamentals and trends. Constantly measuring and reporting the basic economic factors responsible for changes in trends and values. Current Studies... Surveys... Forecasts

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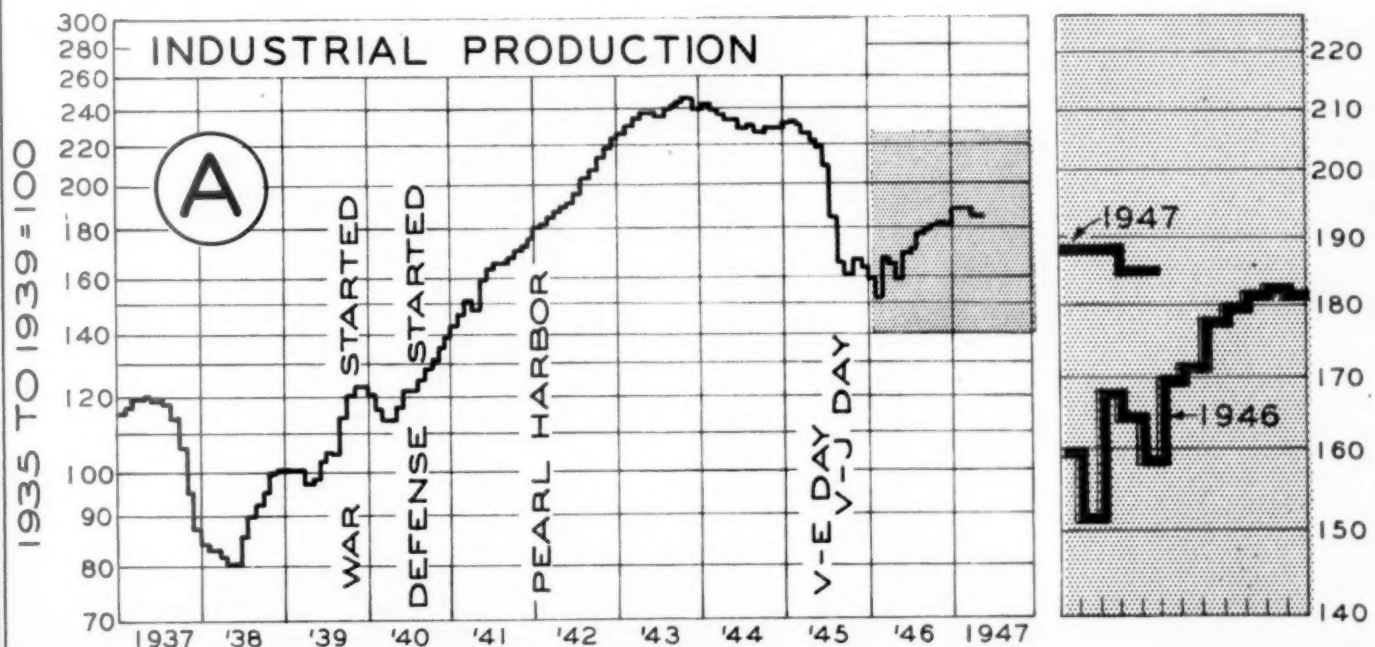
REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

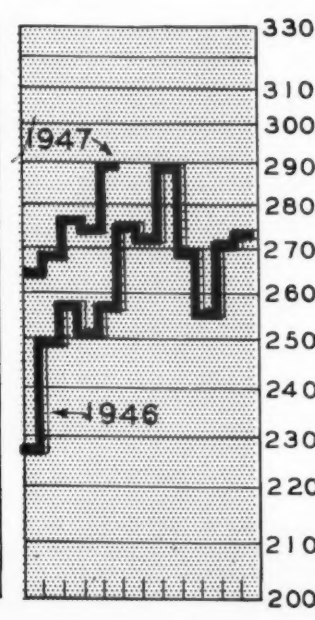
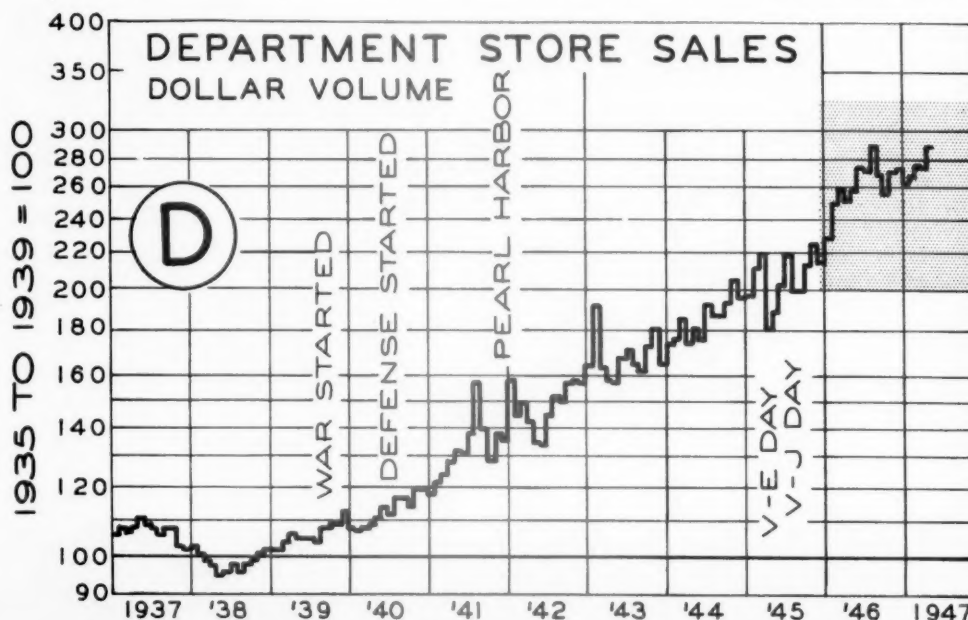
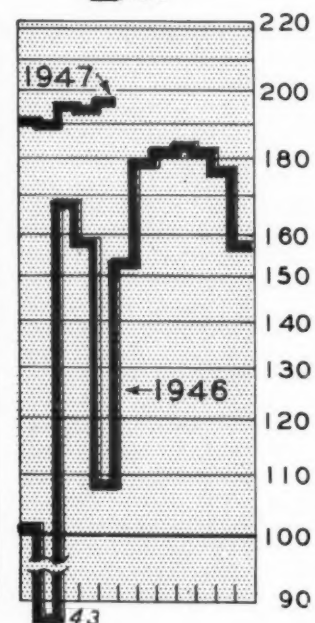
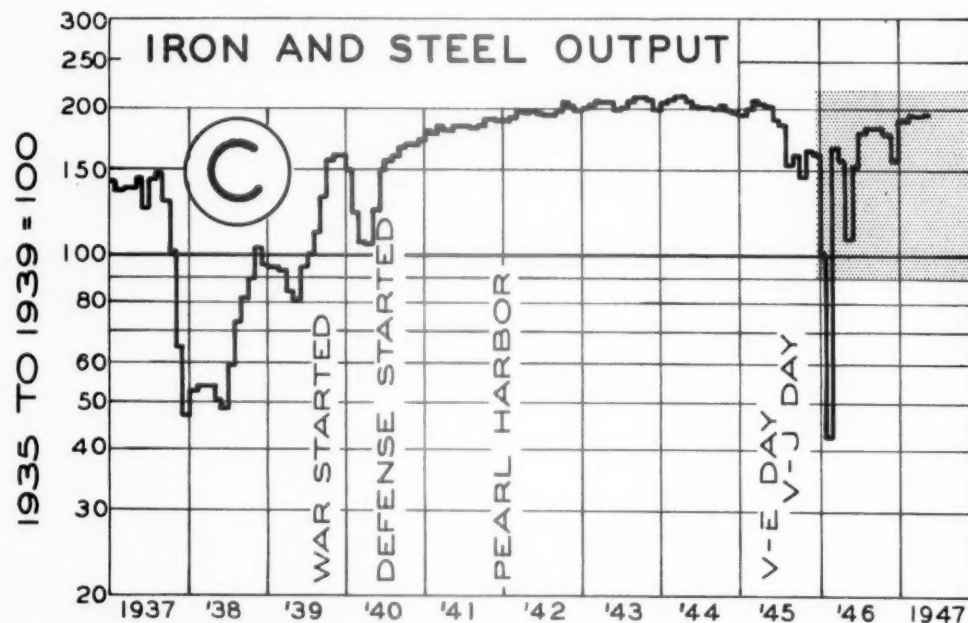
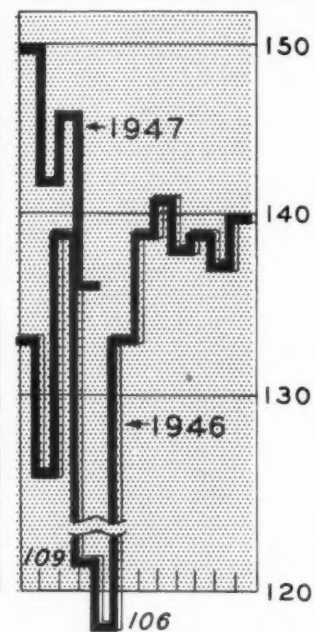
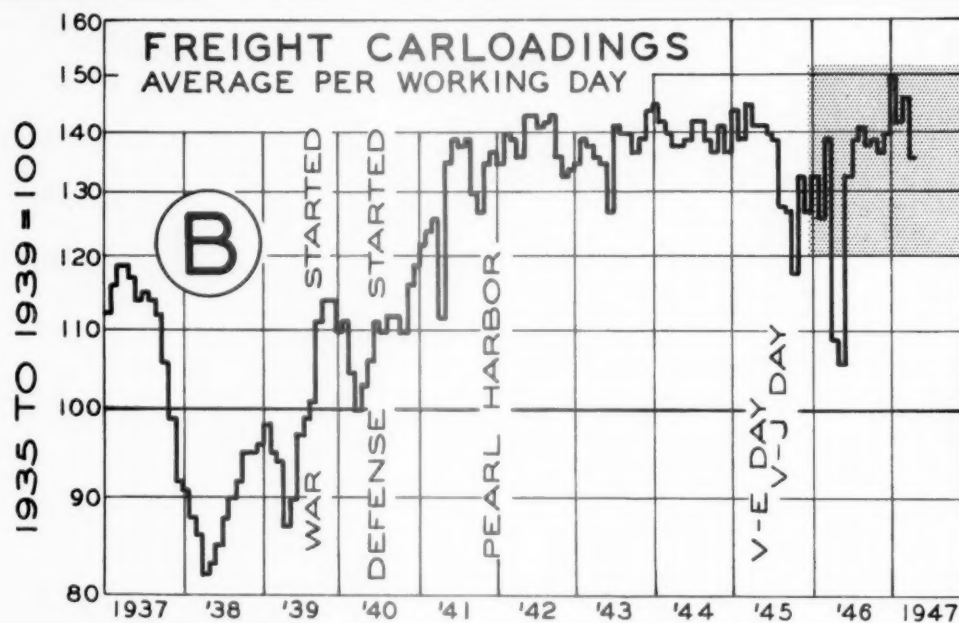
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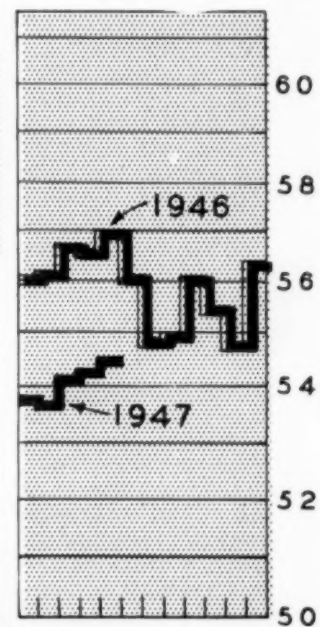
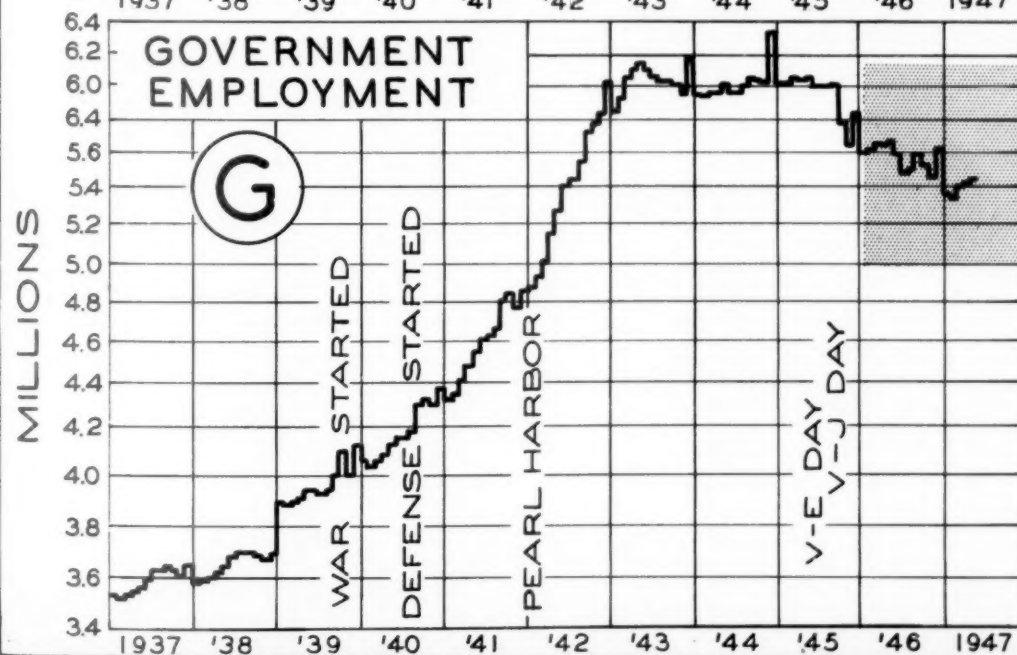
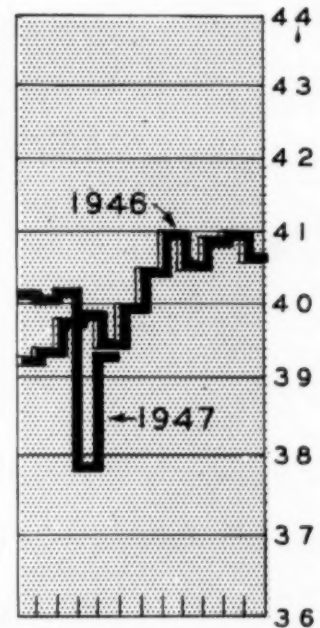
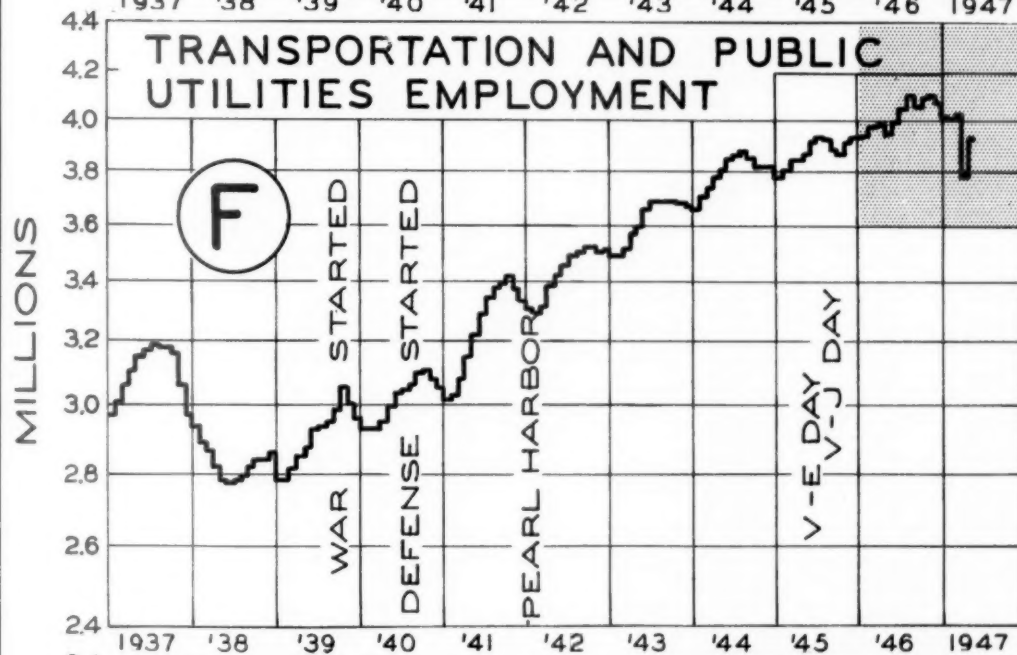
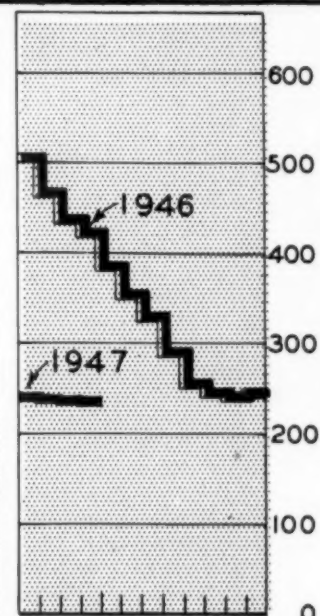
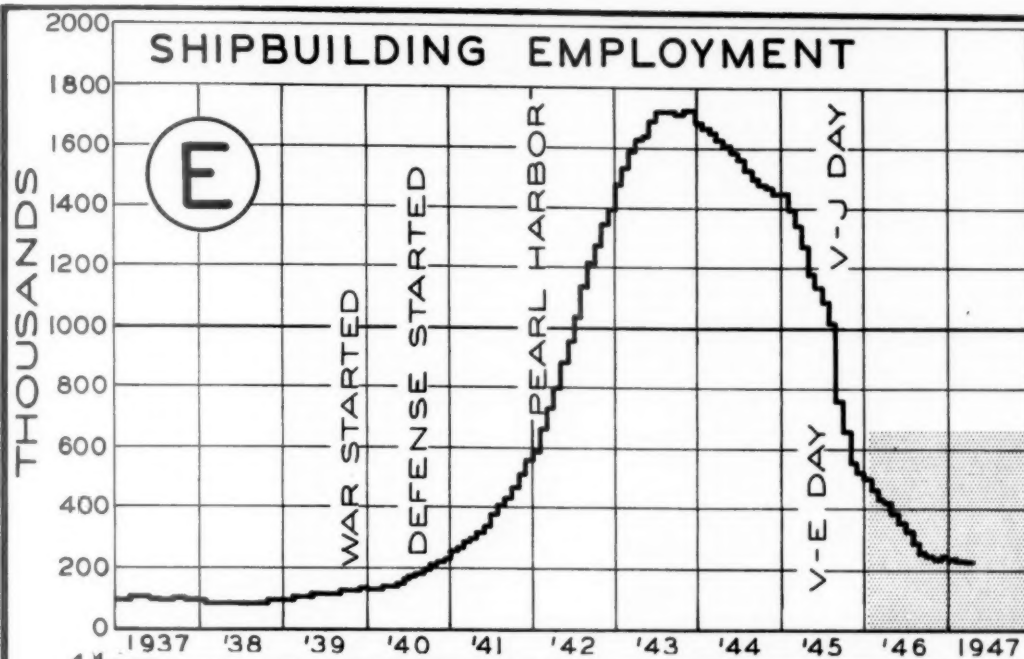
REVISED FORECASTS FOR 1947

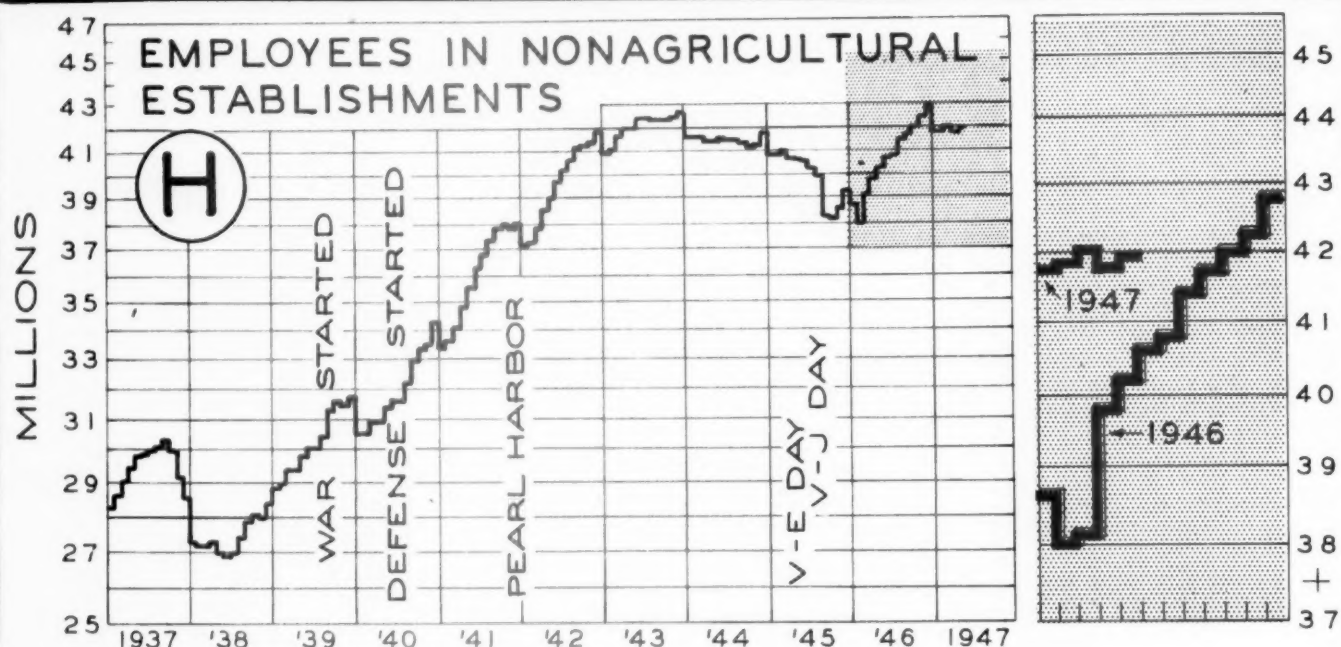
OUR January forecast started with the sentence, "If an economic forecaster can legitimately allow himself to hope for certain future developments, we hope that 1947 will show a readjustment in prices which will necessarily be accompanied by a lessening of business volume and employment. We are very much afraid that if the readjustment does not come in 1947, the inevitable readjustment which will follow will be so drastic that it may imperil the whole economic structure." We stated then that we thought it probable that a recession in business would develop some time during the year, that this recession would be of a rather mild nature, and that it would be relatively short-lived. It now appears that due to a combination of circumstances unpredictable at the time, the recession has taken the form of only leveling out many of the upward trends. This we still think unfortunate, as we believe that more readjustments now would be followed by a period of good business which would last for an extended period.

In the pages that follow we are reviewing the forecasts made in January, making such changes for the balance of the year as seem justified by the experience during the first six months. In the interests of brevity we are not reprinting the January forecasts in detail, but are summarizing them under the various subjects. We believe that many persons, however, would be interested in turning back to the forecast issue, reading the forecasts in detail and checking them against the actual developments so far.









GENERAL BUSINESS ACTIVITY

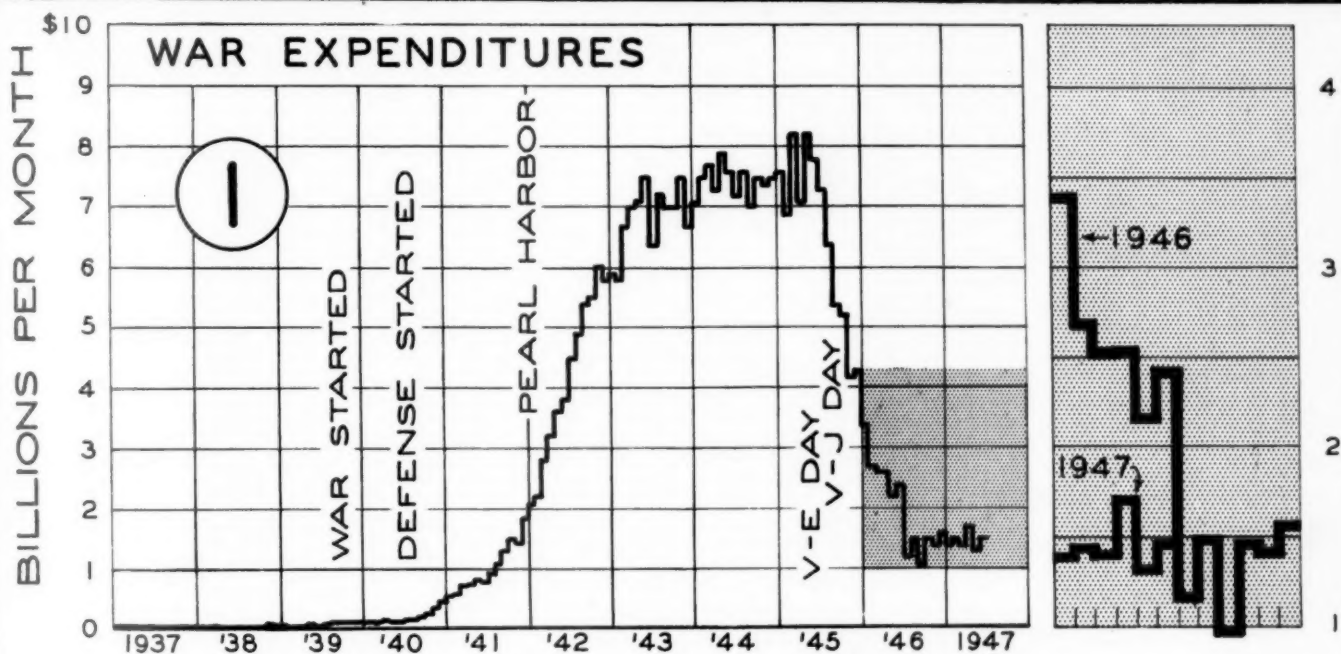
Chart A shows industrial production in the United States from 1937 to the last month available. To the right on Chart A the figures for 1946 through May of 1947 are shown in greater detail. The rise in industrial production in 1946 was brought about largely through the need to replenish inventories and to take care of accrued shortages which had developed during the war period. These inventories and accrued shortages will no longer take the same percentage of production which they were taking during 1946, and from here on out the greater part of production will be for recurring demand.

While recent months have shown a drop, the drop is not so great as was anticipated earlier in the year. The change in legislation enabling servicemen to cash their terminal leave bonds will probably add more than a billion dollars to consumer expenditures during the latter part of the year. While we think that this, plus the government expenditures for foreign relief will not be sufficient to bring about any pronounced upward trend in general business, we do think that any radical drop is out of the question for the balance of the year.

On pages 274 and 275 (Charts B through G) we show indexes of freight carloadings, iron and steel output, department store sales volume, shipbuilding employment, transportation and public utility employment and government employment. Most of these indexes would indicate that demand and production are continuing at a relatively high level. The comparatively slow drop in government employment is quite discouraging and is a further indication of the truth of the statement, "The nearest thing to immortality is a government bureau."

Chart H shows the number of employees in nonagricultural establishments. It will be noticed that there is yet no indication of a drop, although scattered lines of industrial activity have been reporting some unemployment. Apparently, however, as fast as unemployment has developed in some fields, the heavy demand for industrial workers has absorbed the surplus elsewhere.

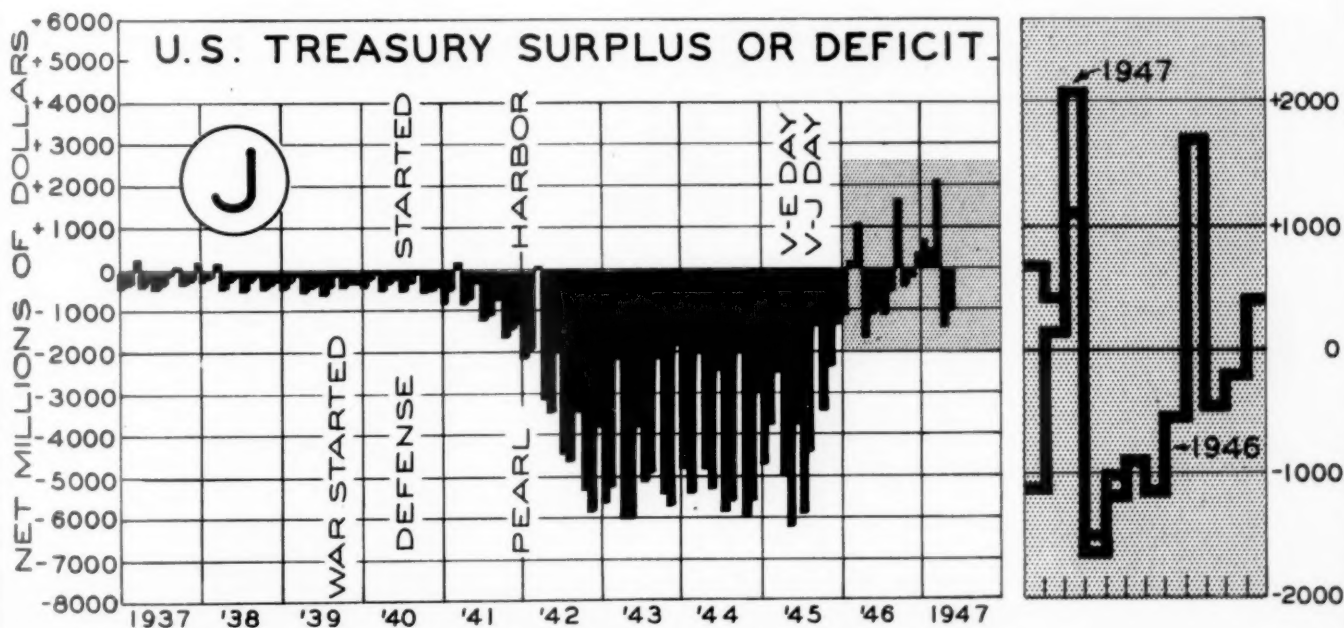
Chart I shows war expenditures in the United States from 1937 to the present.

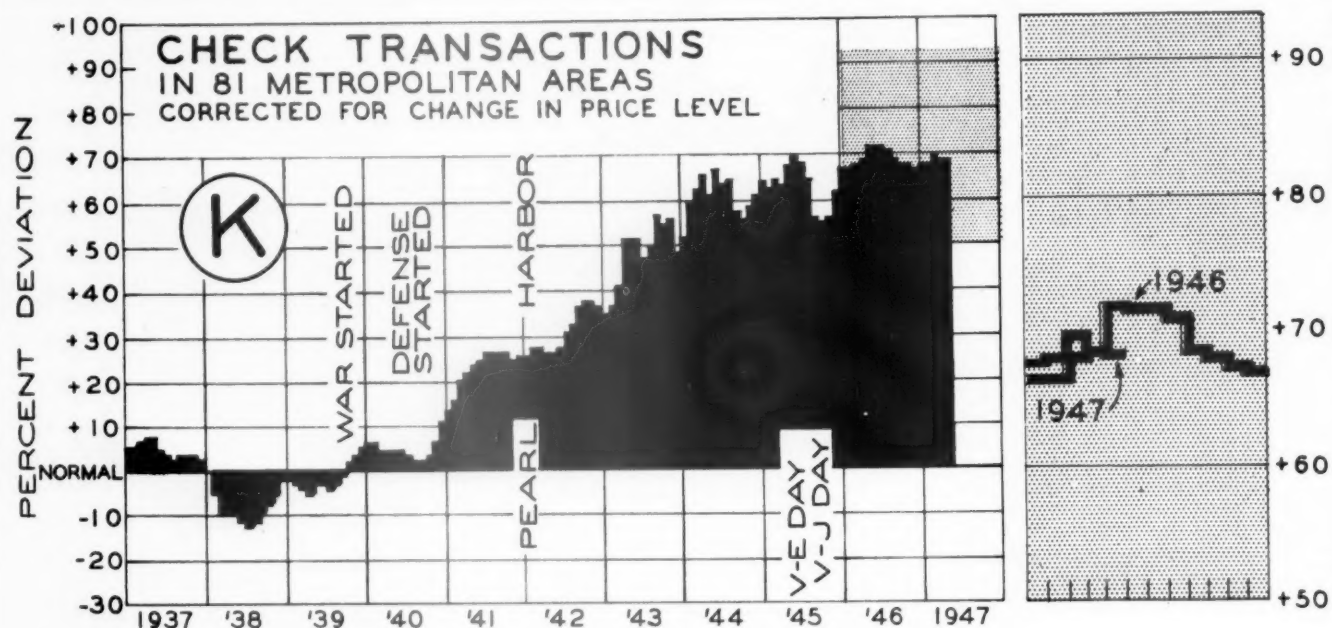


Once running more than eight billion dollars per month, they have apparently stabilized at the present time at about the billion and a half level. Prior to the beginning of the war in Europe our military expenditures were not running a billion dollars a year. Barring some international agreement, it seems probable that military expenditures will continue at about this level.

The United States treasury surplus or deficit is shown on Chart J. If there were any assurance that the holding of present income tax rates would result in a reduction of the Federal debt, I believe that most intelligent persons would be in favor of a continuation of the present rates, but in all probability if the present rates remain in effect the government will continue to spend on the basis to which it has become accustomed during the period preceding and accompanying the war.

Chart K shows check transactions in 81 metropolitan areas of the United States corrected for changes in the price level and related to a long-term normal.

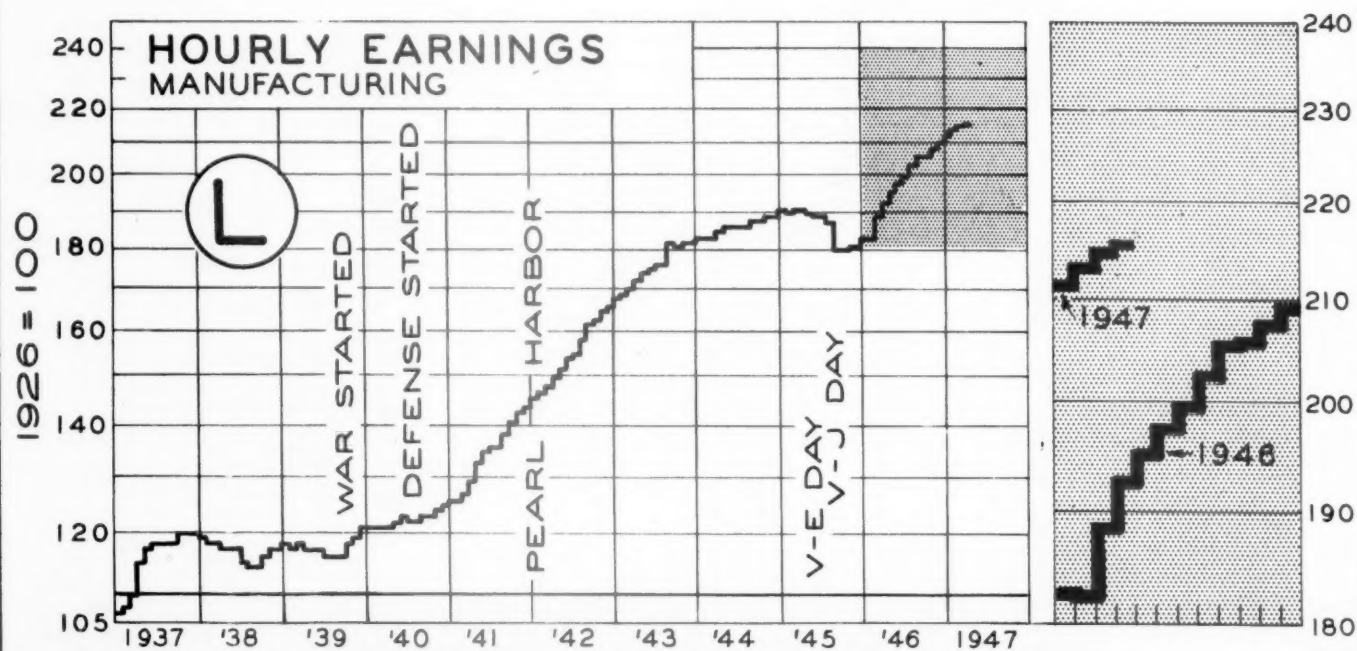


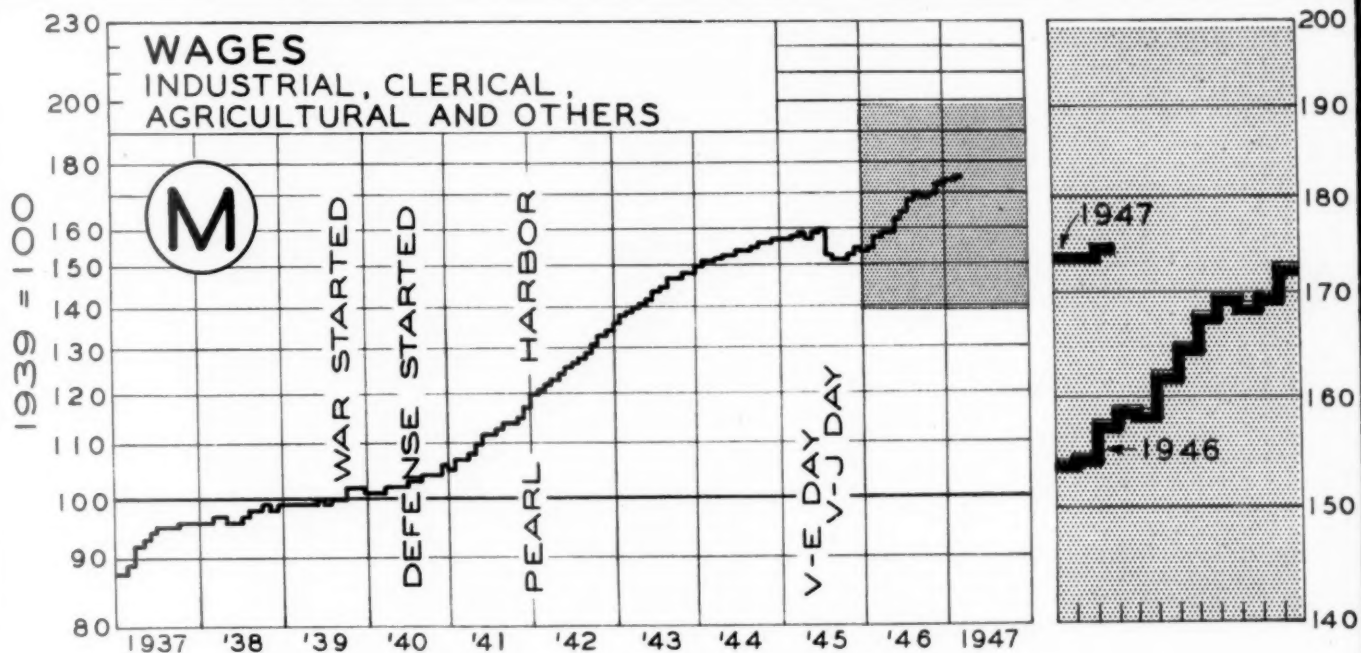


The effect of our deficit financing in increasing the supply of currency and credit available is clearly apparent on this chart. It is also apparent that during the past twelve months inflationary pressures have leveled off.

Chart L shows the fluctuations in hourly earnings in manufacturing establishments in the United States. The rapid increases during 1946 and the first six months of 1947 were largely government-inspired and have resulted in the rapid increases during the same period in wholesale commodity prices, as shown on Chart N. All wages, however, have not increased at so rapid a rate as have hourly earnings in the manufacturing industries.

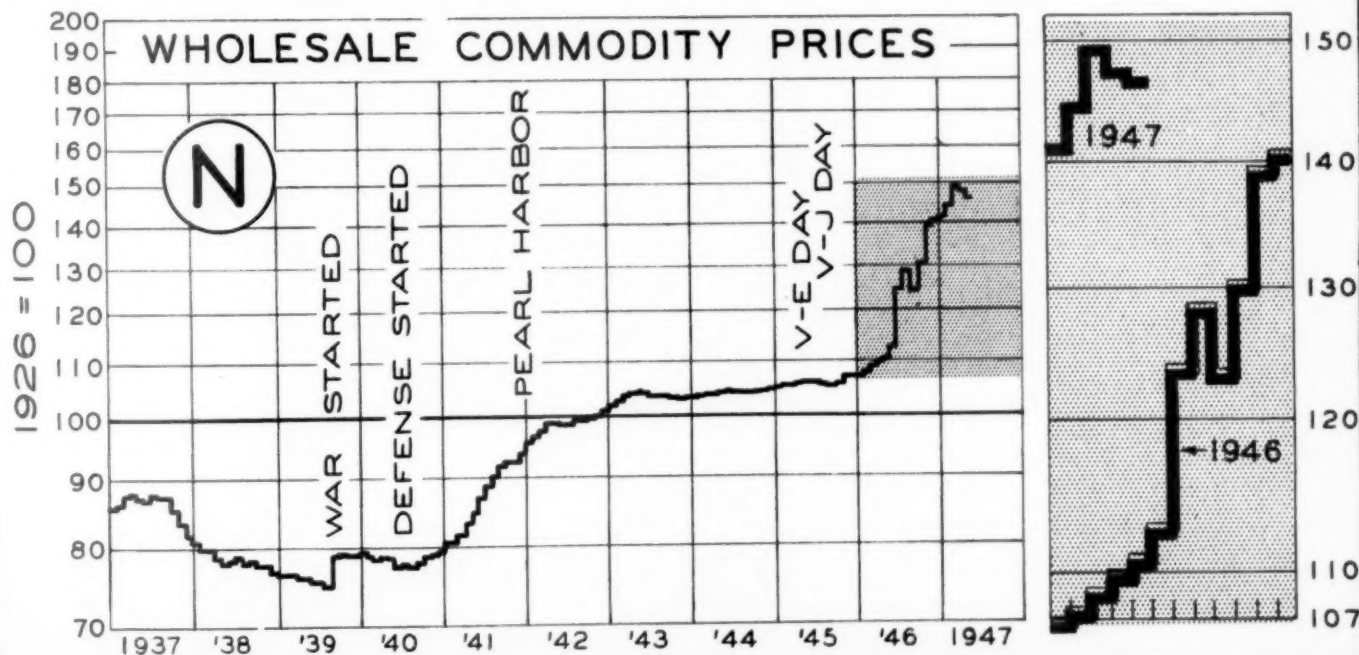
Chart M shows the wages of all persons in the economy, each weighted in accordance with the proportion that each group forms of the total employed population. At the present time all wages are approximately 75 per cent above the 1939 level.

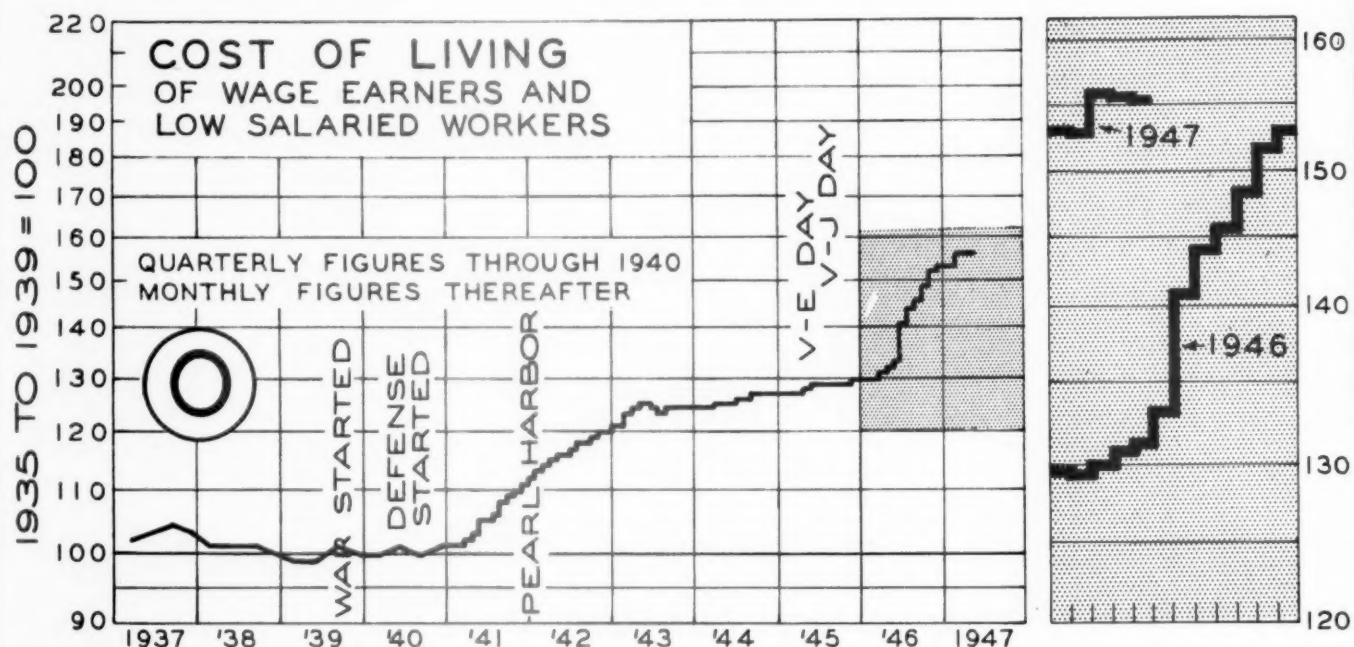




The cost of living index shown on Chart O would indicate that at the present time it costs approximately 56 per cent more for the average family to maintain the same standard of living which it maintained in 1939. It is a great tribute to the manufacturing capacity of the United States that in spite of all the wastes of war the standards of living of the average family have increased. This is quite apparent since the average of all wages is now 75 per cent above 1939, with only a 56 per cent increase in the cost of living.

The fluctuations of the stock market are of interest not only to investors in common stocks but to the general public as a barometer of business activity. Many persons following the market believe that the stock price averages know more than any one individual, as they are the result of the independent actions of informed persons on the prospects for profits in relationship to the current cost of investments. If the market drops, it is an indication that informed investors believe that the outlook for profits is not so good as was formerly supposed. The

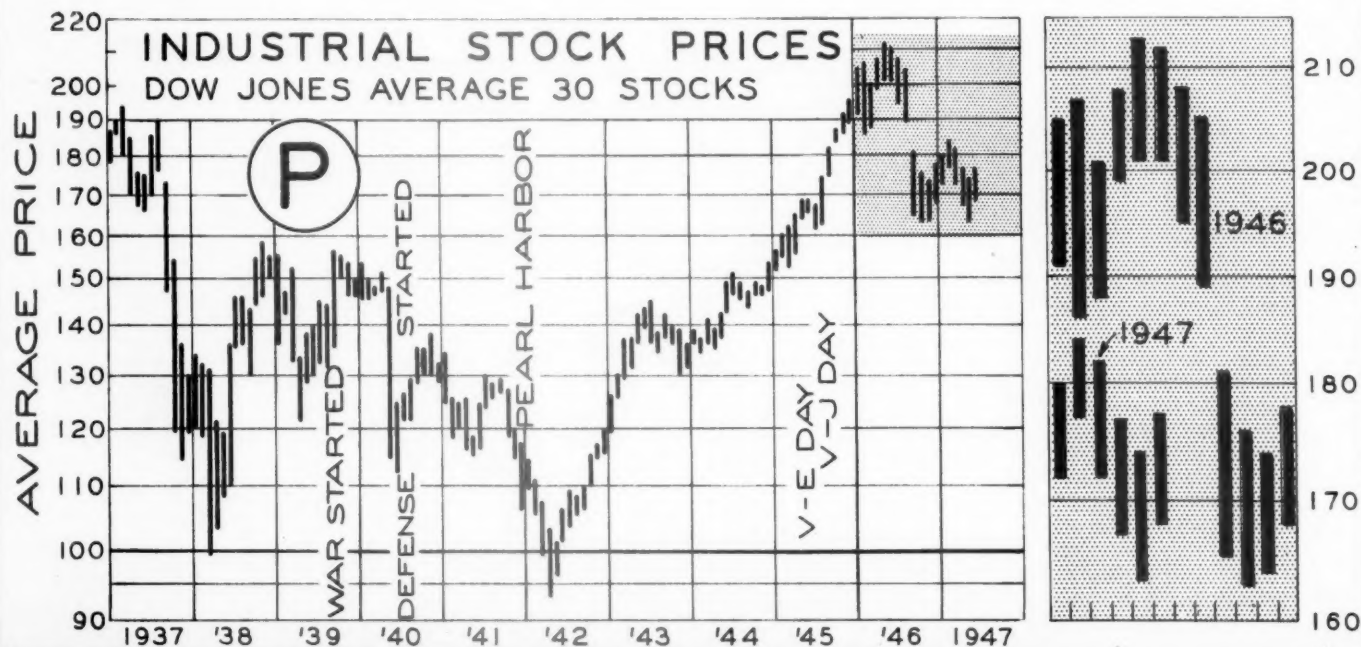




large drops of last fall have so far not been reflected by a corresponding shrinkage in business. While general investment psychology seems to assume that the bear market is over, we believe that the market is still highly speculative and that new investments should be made with great caution. Most bear markets in the past have continued for a longer period than has the present one, and it is entirely probable that the recent rise in stock prices is merely a correction after the very rapid drops of this last fall. If this be the case, further drops may be expected as the year progresses.

URBAN REAL ESTATE RESIDENTIAL

In January we indicated that we thought rent control would be modified during the year and that it would be removed from new units to be built. If the owners of real estate in areas which are now uncontrolled use common sense in readjusting their rental schedules upward over a considerable period of time in place of one



vertical jump of large proportions, Federal rent control will expire next year and in most cases will not be replaced by local control. In some communities, however, it seems certain that the drop of Federal controls will be replaced by local controls almost as onerous.

Due to the high level of present industrial activity, the housing shortage is still acute, but not nearly so acute as it was a year ago. This is evidenced by the fact that persons are relatively slow in buying housing on today's market in comparison with the rate at which almost all offerings were being snapped up a year ago.

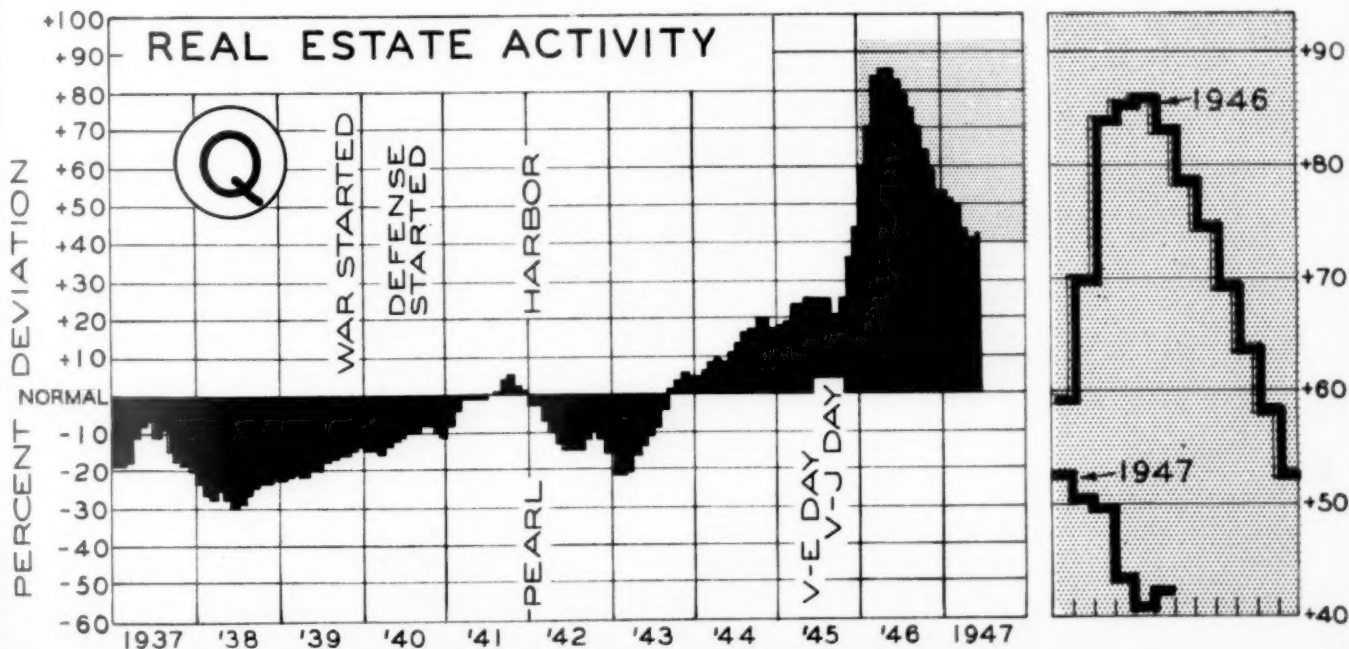
With or without a recession in 1947, the prices of single-family residences will not exceed the prices which were secured in the latter part of 1946; in most cases, 1947 prices will be considerably below the peak set this fall.

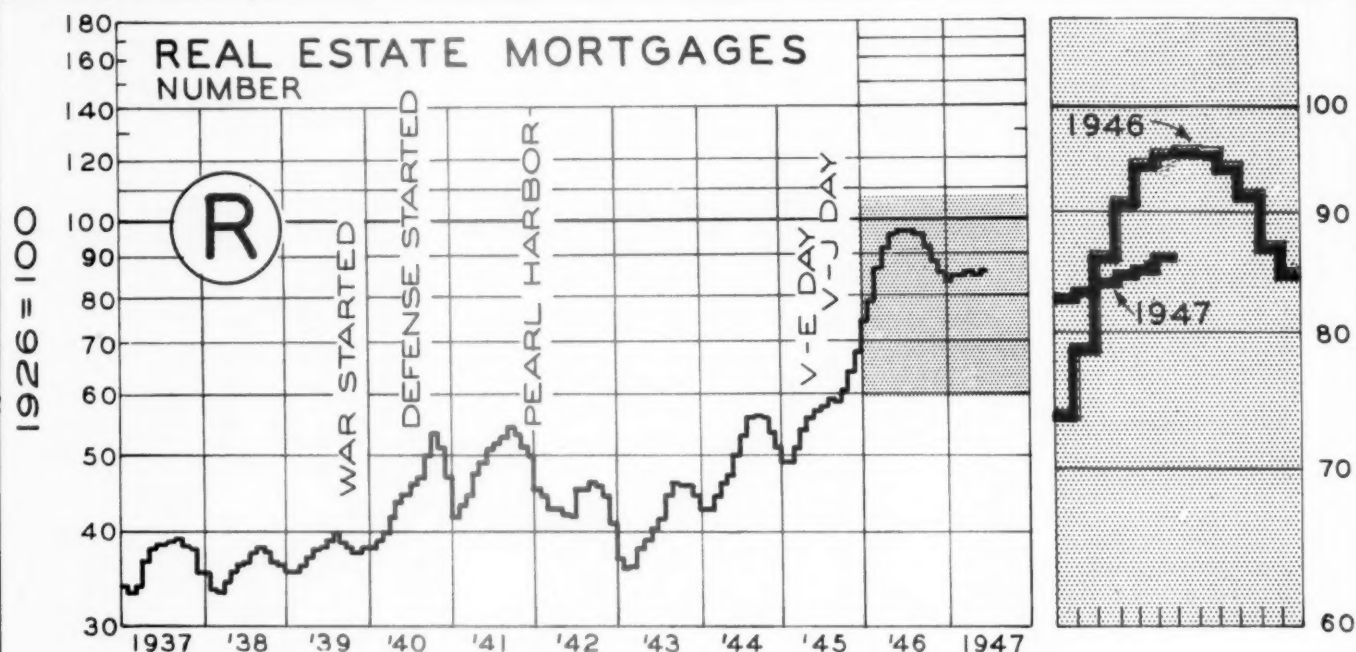
Due to the modification of rent control, apartment buildings well located and well designed in the average city will increase slightly further in value. By the latter part of the year, however, we think it probable that existing rent increases and future possible increases will have been discounted in the prices being secured, with a sideways movement followed a little later by a drop in the value of these buildings.

Construction costs, we said in January, would hit their highest point this spring and then start a decline. The buildings on which we compute costs hit their peak in April, with drops each month since. We think it probable that these drops will continue throughout the year, although the coal wage agreement will have the tendency to stabilize construction costs at a higher level than would otherwise have occurred.

In January our forecast on vacant land was that vacant land suitable for residential building would continue to increase in price during the first six months of the year, with a slowing down and a sideways movement in price in the latter part of the year. We still think that this is a reasonable forecast.

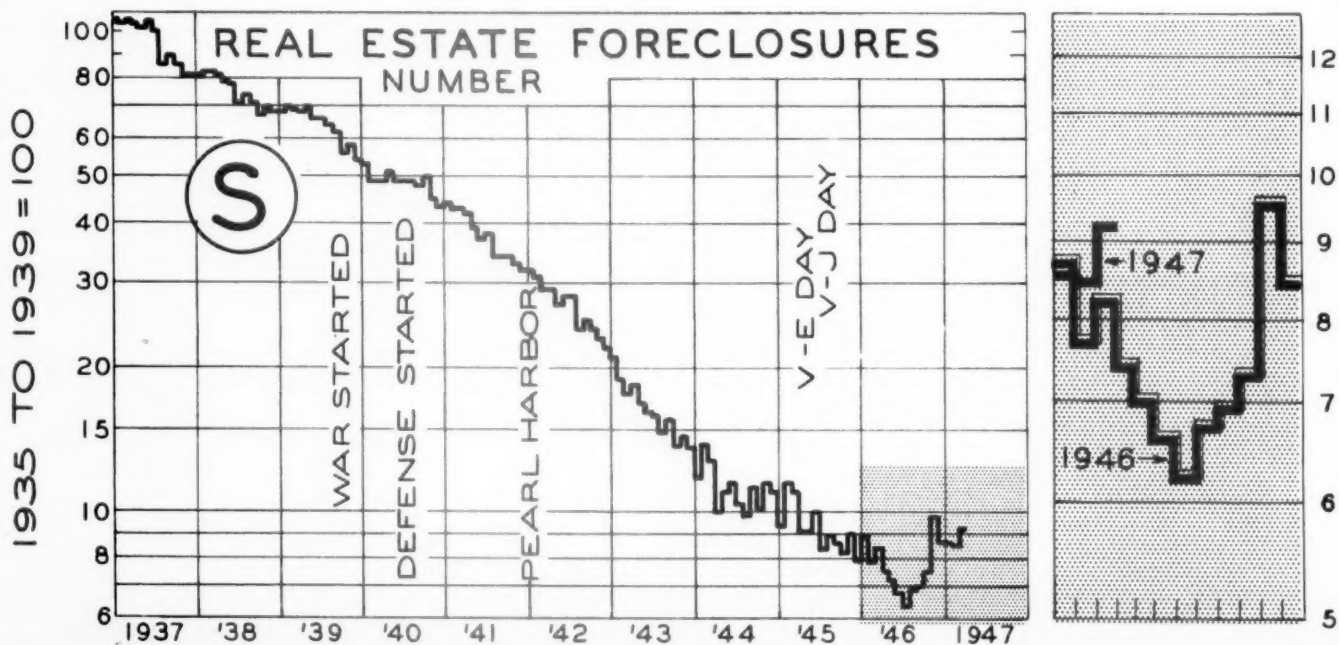
At the beginning of the year we said, "The best guess we can make at the

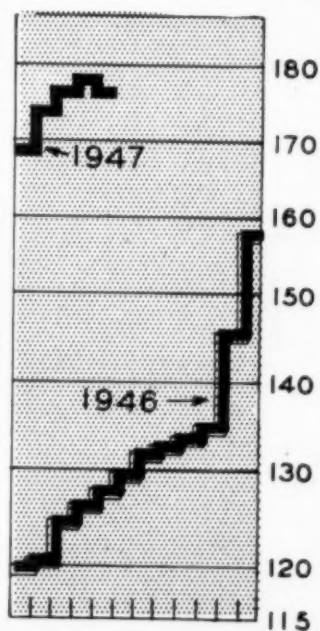
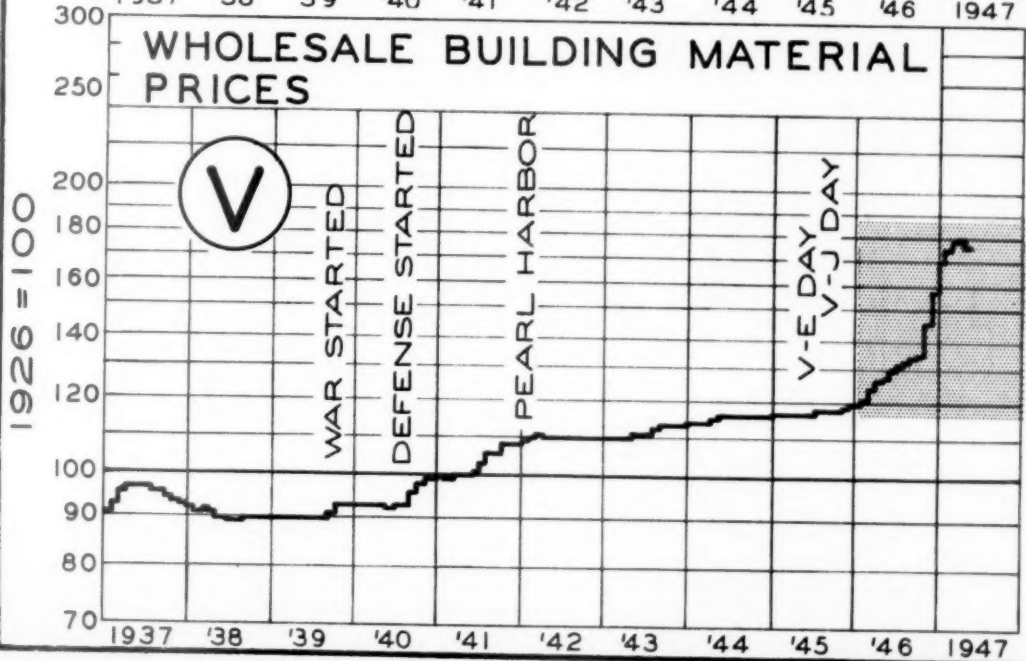
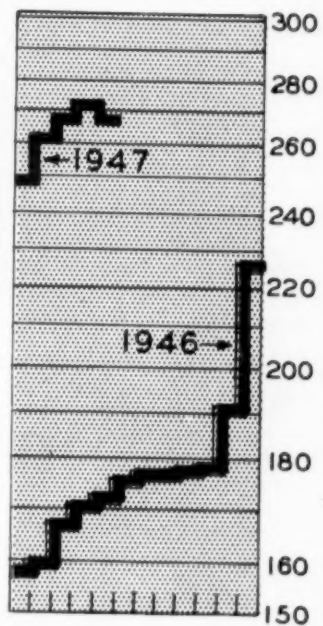
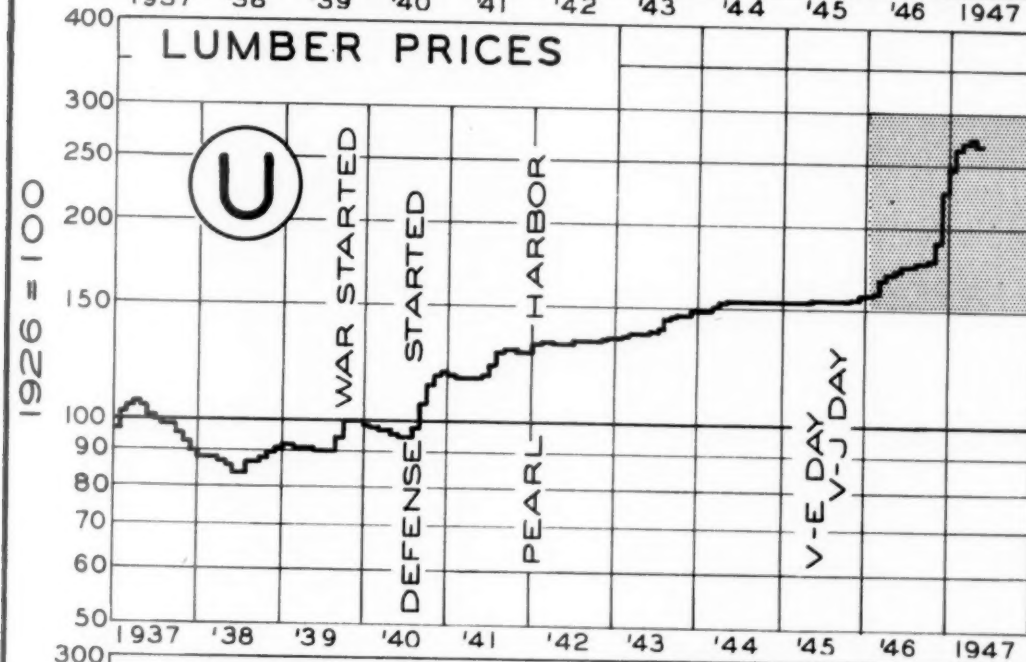
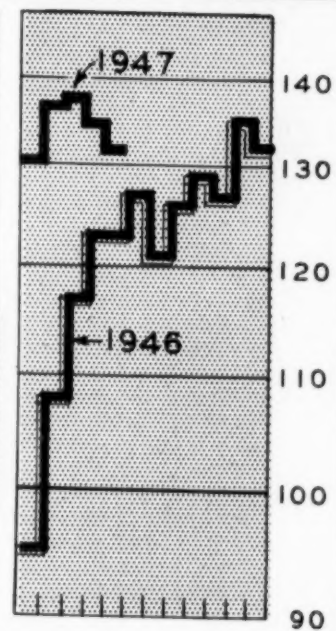
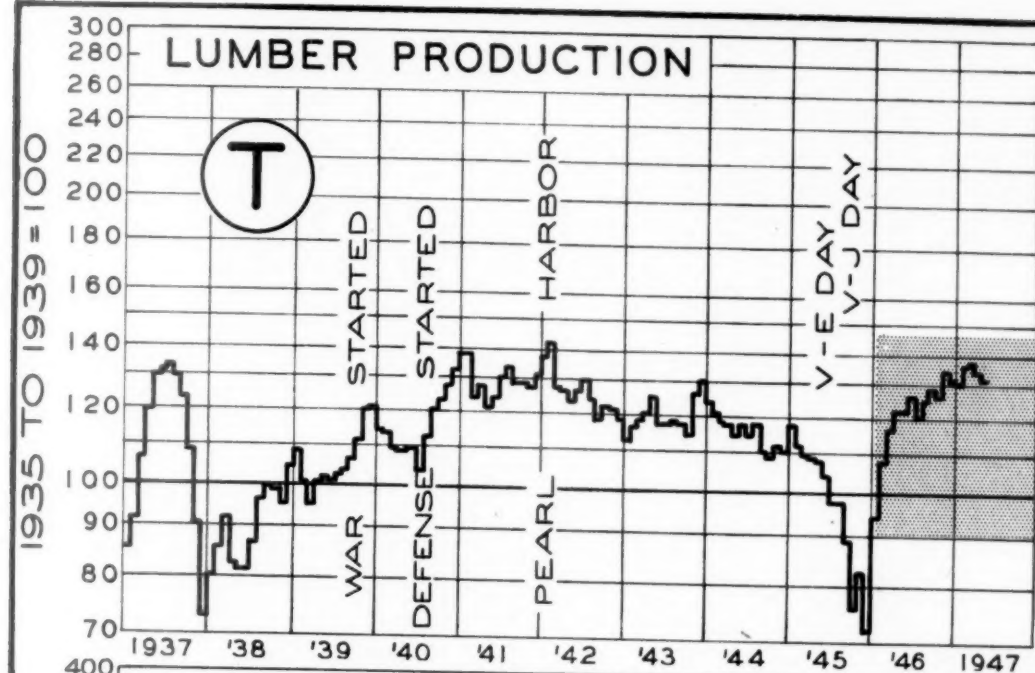




present time on new dwelling units started in 1947 would be 600,000. The number of completions, however, we believe will exceed 750,000. The number of starts we expect to be below 1946; the number of completions above." It now seems that our forecasts made in January will be closer to the final figures than any other published forecasts made at that time. All other forecasts were very much too high; ours may be a little bit too low.

Real estate activity as shown by Chart Q declined in an uninterrupted fashion from May of 1946 to June of 1947. The preliminary figure for June would indicate that activity rose very slightly but this slight rise may be wiped out when the figures from all cities are available. At the beginning of the year we said, "The boom will continue during 1947, but at a less hectic pace than during the spring of 1946. Real estate prices during 1947 will continue to reflect a scarcity premium and will be above worth, but the percentage of scarcity premium will shrink during the entire year." We still think this a reasonable forecast and have no sug-

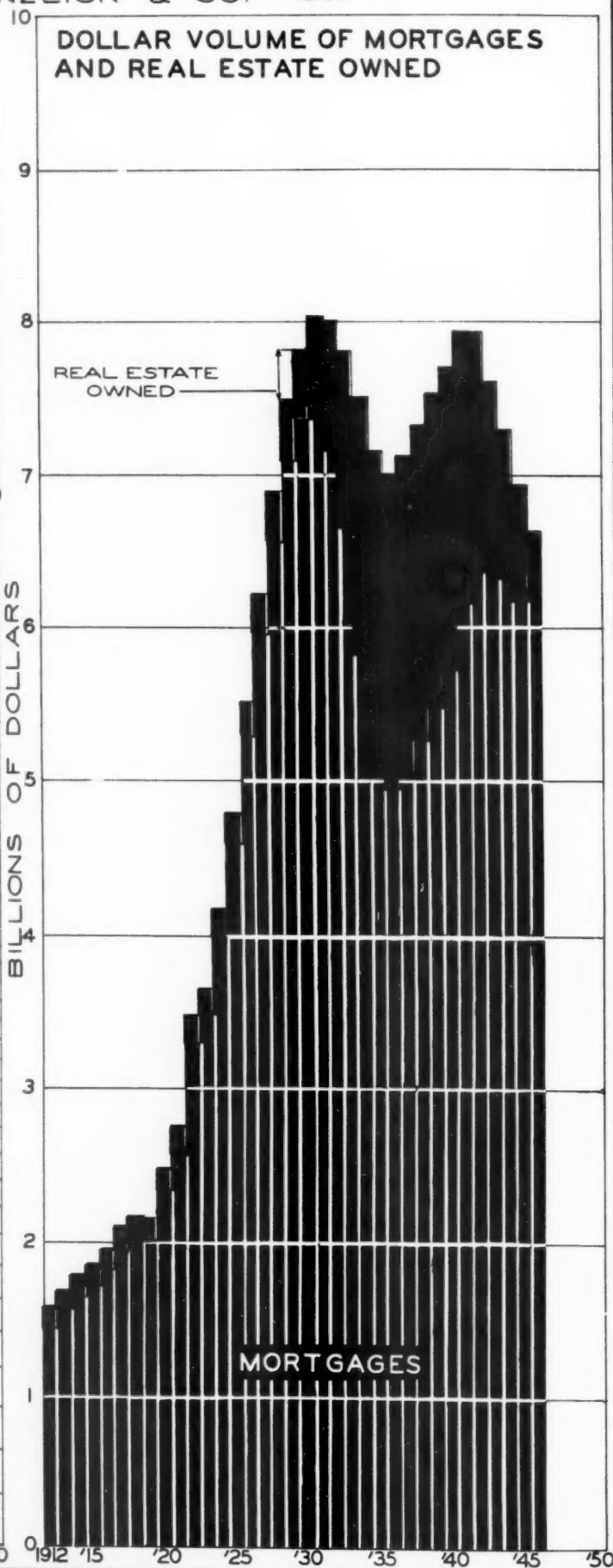
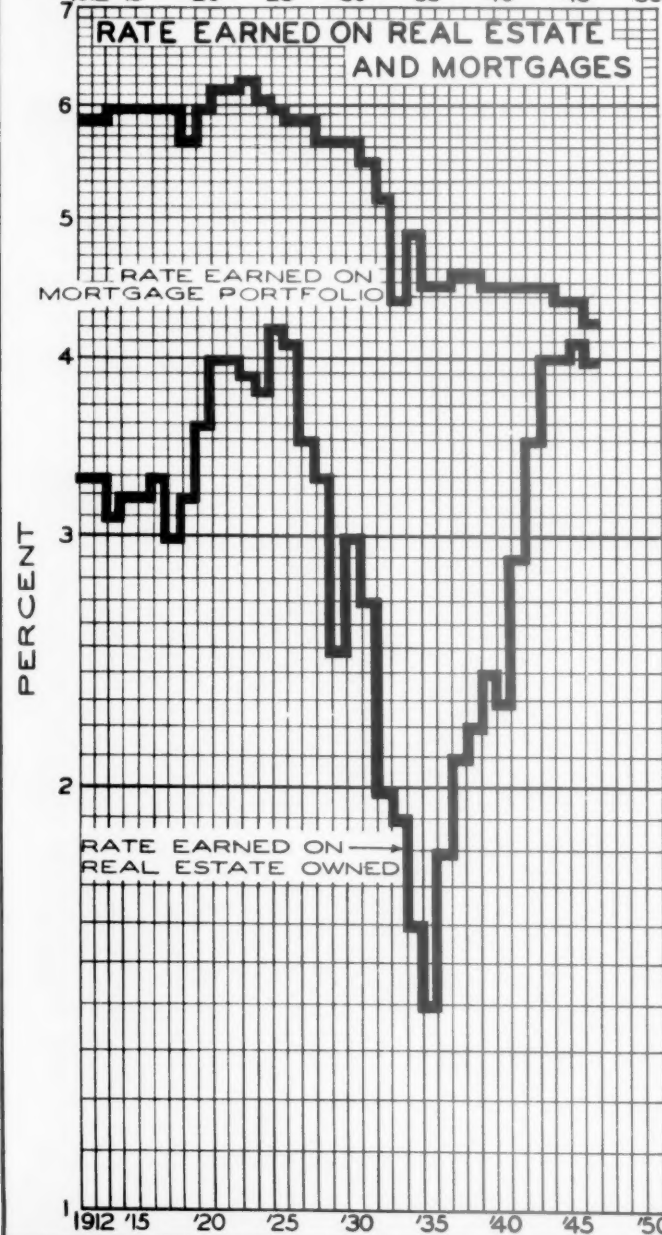
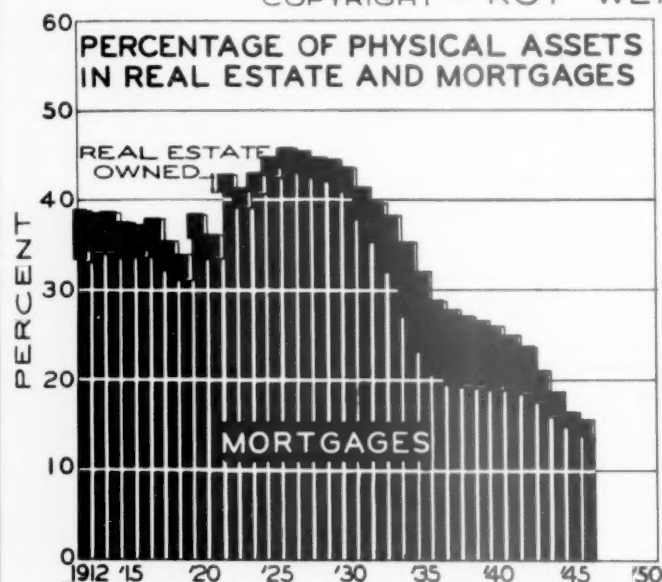




LIFE INSURANCE COMPANIES AS MORTGAGEES

BASED ON RECORDS OF THE 101 LARGEST COMPANIES IN THE UNITED STATES

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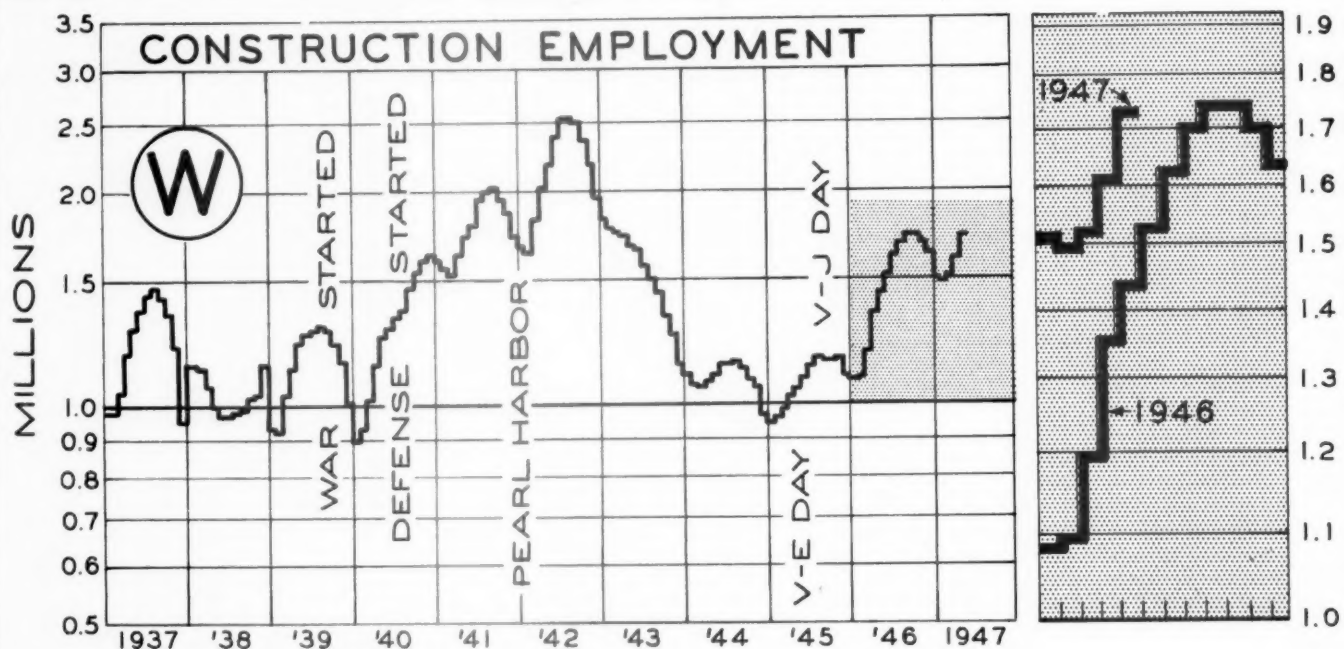
EARNINGS OF "LIFE INSURANCE REAL ESTATE" DECREASE

THE table below and the charts opposite show that during 1946 the 101 largest life insurance companies in the United States earned 4.2 per cent on their real estate mortgages and 4.0 per cent on their real estate owned.† This was a decrease in the mortgage interest rate, and was a slight decrease in the rate earned on real estate.

In the year 1923 the mortgage accounts earned 6.3 per cent. The peak earnings on real estate owned were in 1925 at 4.2 per cent.

Year	REAL ESTATE MORTGAGES			REAL ESTATE OWNED†			GROSS ASSETS
	Amount	% of Assets	Rate Earned	Amount	% of Assets	Rate Earned	
1912	\$1,428,408,000	33.2	5.9	\$ 160,546,000	5.9	3.3	\$ 4,278,567,000
1913	1,554,163,000	34.2	5.9	136,780,000	4.4	3.3	4,532,916,000
1914	1,645,283,000	34.2	6.0	153,536,000	4.5	3.1	4,810,508,000
1915	1,716,342,000	33.6	6.0	154,297,000	3.8	3.2	5,056,680,000
1916	1,823,658,000	33.6	6.0	154,762,000	3.5	3.2	5,438,405,000
1917	1,951,504,000	34.2	6.0	168,191,000	3.5	3.3	5,812,235,000
1918	2,000,864,000	32.2	6.0	167,979,000	3.1	3.0	6,265,434,000
1919	2,009,362,000	31.0	5.8	153,346,000	2.7	3.2	6,608,312,000
1920	2,332,439,000	35.5	6.0	153,255,000	2.7	3.6	6,655,894,000
1921	2,573,821,000	33.5	6.2	162,582,000	2.4	4.0	7,741,267,000
1922	3,297,285,000	40.6	6.2	167,996,000	2.2	4.0	8,421,028,000
1923	3,482,881,000	39.1	6.3	182,670,000	2.2	3.9	9,165,167,000
1924	3,993,230,000	40.6	6.1	204,120,000	2.1	3.8	10,121,992,000
1925	4,582,281,000	42.6	6.0	223,452,000	2.1	4.2	11,129,064,000
1926	5,283,927,000	43.5	5.9	253,933,000	2.1	4.1	12,466,149,000
1927	5,962,158,000	43.0	5.9	298,606,000	2.2	3.5	13,890,188,000
1928	6,555,276,000	42.6	5.7	351,878,000	2.3	3.3	15,471,299,000
1929	7,091,613,000	42.0	5.7	400,914,000	2.4	2.5	16,883,283,000
1930	7,364,000,000	40.8	5.7	461,949,000	2.6	3.0	18,077,297,000
1931	7,441,593,000	38.0	5.5	598,702,000	3.1	2.7	19,567,235,000
1932	7,165,656,000	35.4	5.2	846,179,000	4.2	2.0	20,219,265,000
1933	6,610,718,000	32.2	4.4	1,224,064,000	5.9	1.9	20,580,888,000
1934	5,827,270,000	27.1	4.9	1,704,119,000	7.9	1.6	21,479,234,000
1935	5,272,707,000	23.2	4.5	1,911,016,000	8.4	1.4	22,715,209,000
1936	4,960,385,000	20.4	4.5	2,056,667,000	8.5	1.8	24,288,552,000
1937	5,055,338,000	19.7	4.6	2,096,042,000	8.1	2.1	25,708,928,000
1938	5,262,537,000	19.4	4.6	2,089,890,000	7.7	2.2	27,150,640,000
1939	5,480,635,000	19.2	4.5	2,054,528,000	7.2	2.4	28,516,282,000
1940	5,746,396,000	19.1	4.5	1,979,710,000	6.6	2.3	30,040,224,000
1941	6,171,303,000	19.3	4.5	1,790,001,000	5.6	2.9	31,548,782,000
1942	6,399,808,000	18.9	4.5	1,554,732,000	4.6	3.5	33,823,517,000
1943	6,371,705,000	17.5	4.5	1,256,957,000	3.4	4.0	36,507,697,000
1944	6,316,596,000	16.0	4.4	984,205,000	2.5	4.0	39,596,118,000
1945	6,192,881,000	14.5	4.4	780,745,000	1.8	4.1	42,814,450,000
1946	6,579,888,000	14.2	4.2	664,321,000	1.4	4.0	46,251,774,000

†Includes home office buildings.



gested changes at the present time.

We indicated at the beginning of the year that we thought 1947 mortgage business would be below the mortgage business of 1946, and Chart R would indicate that although the first two months were above a year ago, since that time the volume of mortgage activity has been considerably below the corresponding months of last year. We think this trend will continue throughout the year.

In our forecast in January we said, "The foreclosure rate will remain low during 1947, but we think it probable that by the end of the year foreclosures will be averaging slightly higher than they are running at the present time." Chart S shows the foreclosure rate since 1937. Apparently foreclosures hit a low point in July of 1946. We think it extremely doubtful that this low point will be reached again for many years as we look for a gradual upward movement in foreclosures from now until some time in the 1950's. There is a tremendous amount of unwilling ownership of real estate, much of it financed for a large percentage of sales price. Any change in industrial conditions will "shake out" some of this precarious ownership.

No change in mortgage interest rates will be perceptible during the second half of 1947. We still think that over a long period of years the tendency will be toward higher rates rather than lower.

Real estate taxes, we said in January, would increase during 1947, and there can no longer be any question of the accuracy of this forecast. We are receiving indications from all parts of the United States that real estate assessments are being boosted in some communities by an average of 25 per cent or more.

URBAN REAL ESTATE COMMERCIAL

In January we said that the increase in rents in the first six months of 1947 will probably be more rapid than the increase in the last six months. We still think that this is probable. Gross vacancy in office buildings in the United States

increased slightly during the last few months. This was due to the fact that the Federal government vacated more office space than was absorbed by private industry. The increase in vacancy, however, was quite slight but was the first time since 1935 that office building vacancy increased rather than decreased.

In January we said that the dollar rentals of store space would move sideways during the year, with the possibility of a slight shrinkage in the latter part of the year. We still think that this is the most probable guess on retail rents for 1947.

INDUSTRIAL REAL ESTATE

Industrial building during the first six months of 1947 has been down to almost half of the volume of industrial building of a year ago. We think there is little chance of any industrial building boom in the second six months of the year.

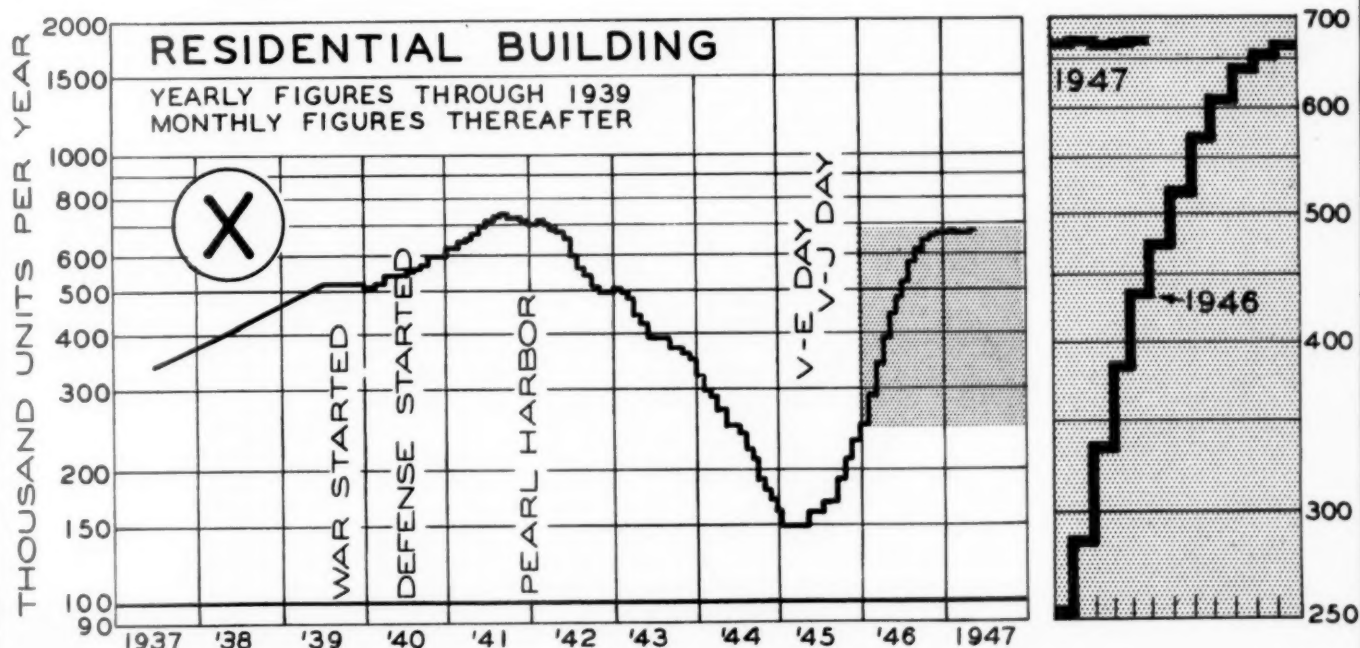
FARM REAL ESTATE

The prices of farm products are being held at a very high level largely by the purchases of farm products for foreign use. These purchases will continue for some time longer and will act as a prop to farm values. We doubt, however, whether the sale of farms will equal in number the sales which took place in 1944. We see no reason for the prices of farms increasing and can see a number of reasons why they will probably decrease very slowly from their present high peak.

Farm taxes will most certainly rise as all local governments need more money.

Farm mortgage activity will remain fairly high, but we think below the peak set some time ago.

We see very little change in interest rates on farm mortgages during the remainder of 1947.



REAL ESTATE TRANSFERS IN PRINCIPAL CITIES

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